LEGISLATIVE SERVICES AGENCY OFFICE OF FISCAL AND MANAGEMENT ANALYSIS

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FISCAL IMPACT STATEMENT

LS 6808 NOTE PREPARED: Jan 7, 2008

BILL NUMBER: SB 259 BILL AMENDED:

SUBJECT: State and Local Spending Caps.

FIRST AUTHOR: Sen. Delph

BILL STATUS: As Introduced

FIRST SPONSOR:

FUNDS AFFECTED: X GENERAL IMPACT: State & Local

X DEDICATED FEDERAL

Summary of Legislation: The bill provides a control on state expenditures for state fiscal years beginning after June 30, 2009, that is based on the changes in: (1) the population of Indiana; and (2) the consumer price index for the Midwest region for all items as published by the Bureau of Labor Statistics. It requires the Budget Agency to determine and publish the spending cap amounts in the Indiana Register. It also provides for emergency expenditures and mandatory reductions in expenditures. The bill requires that the digest of a budget bill or a conference committee report on a budget bill must contain certain information concerning state appropriations and expenditures. It provides that current law concerning business cycle state spending controls expires June 30, 2009. It also provides a control on the expenditures of political subdivisions for local fiscal years beginning after December 31, 2008, that is based on the changes in: (1) the population of the geographical territory of the political subdivision; and (2) the consumer price index for the Midwest region for all items.

Effective Date: July 1, 2008.

Explanation of State Expenditures: Expenditure Limits - The bill establishes a new method of determining annual state spending caps beginning with FY 2010 appropriations and allotments, and provides that the current state spending cap method expires at the end of FY 2009. The bill requires the Budget Agency to publish in the Indiana Register the *maximum total expenditure amounts* for *controlled state funds* for an ensuing two-year budget period no later than April 1st of the odd-numbered year in which that budget period is to begin. The first two-year budget period that the bill applies to is the FY 2010-FY 2011 budget period beginning on July 1, 2009. Thus, the maximum total expenditure amount for FY 2010 and FY 2011 must be published by April 1, 2009.

The bill defines a <u>controlled state fund</u> as the state General Fund, the Property Tax Replacement Fund, and the Counter-Cyclical Revenue and Economic Stabilization Fund. The method for determining the <u>maximum</u> total expenditure amounts for each fiscal year of a budget period is described in (1) and (2) below.

- (1) The maximum total expenditure amount for the first fiscal year of an ensuing budget period is based on the maximum total expenditure amount for the first fiscal year of the current budget period multiplied by an estimate of the *composite percentage change* in state population and consumer prices during the current budget period. Thus, the maximum total expenditure amount for FY 2010 would equal the FY 2008 maximum total expenditure amount multiplied by the estimated composite percentage change in state population and consumer prices during FY 2008 and FY 2009. (Note: The FY 2008 appropriations from the controlled state funds would be used in lieu of a computed maximum total expenditure amount to start the procedure under the bill.)
- (2) The maximum total expenditure amount for the second fiscal year of an ensuing budget period is based on the maximum total expenditure determined in (1) above multiplied by an estimate of the composite percentage change in state population and consumer prices during that first fiscal year of the ensuing budget period. So, the FY 2011 maximum total expenditure amount would be equal to the FY 2010 maximum total expenditure amount multiplied by the estimated composite percentage change in state population and consumer prices during FY 2010.

The <u>composite percentage change</u> is the sum of: (1) the percentage change in the Consumer Price Index for all urban consumers in the Midwest; and (2) the percentage change in state population as determined by the most recent of the federal decennial census, a federal special census, a special tabulation, or a corrected population count. The composite percentage change for the first 20 months of the current budget period would be used to estimate the two-year and one-year rates of change for an ensuing budget period. Thus, the composite percentage change in population and consumer prices from July 1, 2007, to February 28, 2009, would be used to estimate the two-year and one-year rates of change to determine the maximum total expenditure amounts for FY 2010 and FY 2011.

Had the bill been in effect for FY 2008 and FY 2009, the composite percentage change would have been calculated for the period July 1, 2005, to February 28, 2007. This would have allowed the state spending cap to grow by an average of 1.9% per year during the FY 2008-FY 2009 budget period.

The bill states that the General Assembly shall not appropriate and the Budget Director may not allot more expenditures in a state fiscal year from controlled state funds than the state spending cap. The bill allows the state spending cap to be increased, if at least one of the following occurs: (1) a spending responsibility has shifted from another level of government to a controlled state fund; (2) a spending responsibility has shifted from a fund not limited by this chapter to a limited fund; or (3) there has been an expansion of state services and state spending and a tax increase has been dedicated to these services. The increase in the spending cap requires approval of a two-thirds majority of both the House and Senate. The bill also sets out procedures for the reduction of the state spending cap under certain conditions.

This bill affects appropriations and allotments for fiscal years beginning FY 2010. The impact on state spending is indeterminable and subject to legislative, executive, and judicial actions.

Budget Bill Requirements - This bill requires that the digest of the conference committee report on the budget bill contain the following information: (1) the total amount of appropriations from controlled state funds; (2) the total amount of appropriations for expenditures subject to general expenditure controls from

controlled state funds; and (3) the expenditure limit for controlled state funds. This requirement would first apply for the budget bill considered during the 2009 General Assembly.

Explanation of State Revenues:

Explanation of Local Expenditures: Expenditure Limits - The bill establishes a method for determining annual general fund spending caps for political subdivisions beginning in CY 2009, with the requirement beginning in FY 2010 (July 1, 2009 to June 30, 2010) for school corporations.

The bill requires a political subdivision to determine the <u>maximum total expenditure amount</u> from the general fund for an ensuing calendar year budget period based on the maximum total expenditure amount for the current year multiplied by an estimate of the <u>composite percentage change</u> in the population of the political subdivision and consumer prices during the current calendar year (see Explanation of State Expenditures for information on the population and consumer price measures). (Note: The CY 2008 general fund appropriations for a political subdivision would be used in lieu of a computed maximum total expenditure amount to start the procedure under the bill.) The bill requires a similar procedure to be used by school corporations with the ensuing fiscal year maximum total expenditure amount based on the current fiscal year maximum multiplied by an estimate of the composite percentage change in population of the school corporation and consumer prices during the current fiscal year.

For an ensuing calendar year budget period, the composite percentage change would be the sum of population change in the political subdivision and consumer price change during the immediately preceding calendar year and the first seven months of the current calendar year. For CY 2009, the computation would be based on the January 1, 2007 to July 31, 2008 change in population and consumer prices. For an ensuing fiscal year budget period, the composite percentage change would be the change in population and consumer prices during the immediately preceding fiscal year and the first five months of the current fiscal year. For FY 2010, the computation would be based on the July 1, 2007 to November 30, 2008 change in population and consumer prices.

The bill states that the fiscal body of a political subdivision shall not appropriate more expenditures for the year from the general fund than its spending cap. The bill allows a local spending cap to be increased, if at least one of the following occurs: (1) a spending responsibility has shifted from another level of government to a political subdivision's general fund; (2) a spending responsibility has shifted from another fund to a political subdivision's general fund; or (3) there has been an expansion of services and spending and a tax increase has been dedicated to these services. The bill requires the Department of Local Government Finance to determine the increase in a political subdivision's spending cap. The bill also sets out procedures for the reduction of a local spending cap under certain conditions.

This bill affects appropriations for fiscal years beginning either January 1, 2009 or July 1, 2009. The impact on local spending is indeterminable.

Explanation of Local Revenues:

State Agencies Affected: State Budget Agency, General Assembly.

Local Agencies Affected: All political subdivisions.

Information Sources: U. S. Bureau of Labor Statistics, Consumer Price Index, All Urban Consumers in the

Midwest, All Items.

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